

Message Text

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ORIGIN ARA-10

INFO OCT-01 SS-14 ISO-00 EB-03 TRSE-00 L-01 OMB-01
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FM SECSTATE WASHDC
TO AMEMBASSY KINGSTON

C O N F I D E N T I A L STATE 134264

LIMDIS

E.O. 11652: N/A

TAGS: EFIN, EAID, IMF, JM

SUBJECT:IMF JAMAICA NEGOTIATIONS

REF: KINGSTON 2879

1. PARAS 2-6 OF THIS MESSAGE WERE IN PREPARATION WHEN WE RECEIVED (A) MESSAGE FROM IMF REQUESTING ANOTHER MEETING AND (B) REFTEL. THERE HAD BEEN A SUBSTANTIAL CHANGE IN THE SITUATION FOLLOWING OUR FIRST MEETING. PARAS 7-9 REPORT ON SECOND MEETING WITH IMF.

2. AT MAY 27 MEETING CARLOS SANSON SUMMARIZED PROGRESS OF
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NEGOTIATIONS ON THREE KEY ISSUES AND PROVIDED REPORT ON STATUS OF NEGOTIATIONS. HE INDICATED THAT GOJ NEGOTIATORS REQUIRED TIME TO CONSULT WITH LABOR ON THE INCOMES POLICY AND TO GAIN MANLEY'S SUPPORT, ESPECIALLY ON AN APPROACH TO HANDLING THE FISCAL DEFICIT.

3. ON INCOMES POLICY, GOJ WILL APPARENTLY ESTABLISH INDEX

SYSTEM BASED ON JUNE 1973 BASE PERIOD. INCREASES WOULD BE GRANTED ONLY AS CONTRACTS EXPIRE AND THEN ONLY SUBJECT TO A MAXIMUM LIMIT. PUBLIC SECTOR WAGES TO BE FROZEN UNTIL THE END OF THE YEAR. SANSON INDICATED SOME OPTIMISM AS TO LABOR COOPERATION BECAUSE OF THE HIGH LEVEL OF UNEMPLOYMENT.

4. ON FISCAL POLICY, IMF AND GOJ AGREED TO PERMIT FINANCING OF JDOLS.510 MILLION BUDGET DEFICIT AS FOLLOWS: JDOLS. 20 FROM CENTRAL BANK: JDOLS.190 FROM EXTERNAL RESOURCES: JDOLS.150 FROM EXPENDITURE CUTBACKS: JDOLS.40 FROM INCREASED REVENUES ON EXCHANGE TRANSACTIONS: AND JDOLS.110 FROM IDENTIFIABLE SOURCES OF FUNDS (TAXES, FEES, "FORCED SAVINGS"). THIS LEAVES NO ROOM FOR SUPPLEMENTARY BUDGET FOR EMERGENCY PRODUCTION PLAN. EXPENDITURE CUTS TO BE MADE BY ESTABLISHING MONTHLY SPENDING CEILING RATHER THAN CUTTING INDIVIDUAL PROGRAMS: JDOLS.90 MILLION FOR APRIL TO SEPTEMBER AND JDOLS.100 MILLION PER MONTH FOR OCTOBER TO MARCH.

5. ON FOREIGN EXCHANGE, IMF REASONABLY SATISFIED WITH ACTIONS TO DATE AND GOJ HAS PROMISED REVIEW IN OCTOBER. GOJ APPEARS DISPOSED TO MOVE PETROLEUM AND BAUXITE TO SPECIAL RATE AND TO MOVE SOME "BASIC IMPORTS" AS WELL. GOJ COMMITTED ITSELF TO NOT ALLOW ARREARAGES TO GROW FURTHER AND TO RELAX RESTRICTIONS ON BUSINESS TRANSFERS AND TRAVEL ALLOWANCES.

6. ON THE DISBURSEMENT OF AN IMF STANDBY, FIRST TRANCHE (ABOUT DOLS.22 MILLION) WOULD BE AVAILABLE AFTER FINAL CONFIDENTIAL

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APPROVAL OF AGREEMENT (PRESUMABLY LATE JULY OR EARLY AUGUST UNDER REVISED SCHEDULE). SECOND TRANCHE WOULD BE IN TWO PARCELS. ABOUT 2/3 OF SECOND TRANCHE TO BE AVAILABLE AROUND JANUARY 1 AND THE REMAINDER ABOUT APRIL 1. MEMCON BEING POUCHED SUMMARIZING THIS FIRST MEETING.

7. AT MEETING ON JUNE 6 SANSON EXPLAINED THE CHANGED SITUATION AS FOLLOWS. DURING ABSENCE OF COORE AND BROWN WHO WERE ATTENDING IDB ANNUAL MEETING IN GUATEMALA A DIFFERENT FISCAL POLICY THAN THE ONE OUTLINED ABOVE WAS PRESENTED TO AND APPROVED BY GOJ CABINET. THE REVISED VERSION CALLS FOR EXPENDITURE CEILINGS OF JDOLS.90 MILLION AND JDOLS.110 MILLION AND AN ANNUAL "CONTINGENCY" ADDITION OF JDOLS.70 MILLION. THIS CHANGE EFFECTIVELY WIPES OUT MOST OF THE EXPENDITURE REDUCTIONS PROMISED EARLIER. THE SUPPLEMENTAL BUDGET FOR THE EPP HAS NOT BEEN MENTIONED AGAIN BUT THE GOJ CONTINUES TO TALK OF REVIEWING THE SITUATION IN SEPTEMBER, OCTOBER OR NOVEMBER.

8. SANSON MADE THREE IMPORTANT COMMENTS ON THE SITUATION:

(1) THAT HE DOES NOT REGARD THE NEW PROPOSAL AS VIABLE AND EVEN IF THE IMF WENT ALONG IT WOULD NOT BE BANKABLE, I.E., COMMERCIAL BANKS WOULD NOT REGARD IT AS SUFFICIENT AND WOULD NOT RESPOND POSITIVELY; (2) THAT HE REGARDS THE NEGOTIATIONS AS "BACK AT ZERO" AND LIKELY TO BE VERY PROTRACTED; AND (3) THAT THERE APPEARS TO BE A

FUNDAMENTAL LACK OF UNDERSTANDING ON THE PART OF THE GOJ THAT THE CONDITIONS FOR A STANDBY INVOLVE THE SETTING OF VERY SPECIFIC TARGETS AND COMMITMENTS. HE INDICATED THE JAMAICANS KEEP RETURNING TO THE IDEA OF "REVIEWING THE SITUATION LATER" RATHER THAN FOCUSING ON SPECIFIC ACTIONS.

9. ACCORDING TO SANSON, THE GOJ WILL COMMUNICATE THEIR OFFICIAL POSITION TO THE IMF EITHER IN WRITING OR BY SENDING FLETCHER WITH A WRITTEN COMMUNICATION. IF FLETCHER

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COMES HE IS EXPECTED TO SEEK AN INTERVIEW WITH WITTEVEEN. APPARENT UNDERSTANDING IS THAT THIS WILL NOT OCCUR UNTIL AFTER MANLEY RETURNS TO JAMAICA.

10. ABOVE IS PROVIDED FOR EMBASSY'S INFORMATION ONLY. VANCE

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